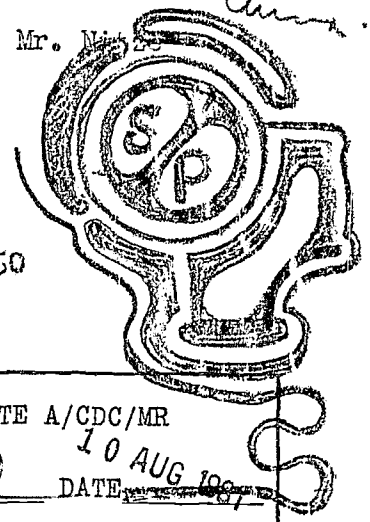


S/P - Mr. N. [unclear]

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March 2, 1950



To : S - The Secretary
Copy To : G - Mr. Rusk
S/S
From: FE - Mr. Merchant

DEPARTMENT OF STATE A/CDC/MR

REVIEWED BY [signature]

DATE 10 AUG 1987

RDS ☐ or XDS ☐ EXT. DATE

TS AUTH. REASON(S)

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As is usual, FE is dealing with a complex of difficult operational and policy problems with respect to China. Some of these, I believe, the Secretary should be informed of and since a brief oral presentation seems sufficient, I merely list the peripheral problems by categories below as a general list:

I. Evacuation and protection problems:

- A. Smith-Bender.
- B. Improvisation of outbound shipping arrangements from Shanghai.
- C. Unhappy position we will no doubt face of closing out the Consulate General in Shanghai, leaving behind certain individual key American businessmen whom, by present indications, the Communists propose to retain as hostages.
- D. Arrangements being made by ECA for disposal of their residual stocks in Shanghai when ECA personnel leave with the Consulate group.

II. Our efforts to deny certain valuable assets to the Communist regime:

- A. Failure in the case of the ships on which the EX-IM Bank and the Maritime Commission hold mortgages.

B. The

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- B. The situation of the former CMAC and
CAAC aircraft in Hong Kong.
- III. The peripheral political problem of Tibet: its
status, our attitude, and the threat of invasion by
the PLA.
- IV. Developments in the political, military and eco-
nomic position of Formosa (apart from the question
of our policy thereto, which is discussed later
in this memorandum).
- V. Policy and practical aspects of freezing Chinese
funds in the USA, both National and Communist.
- VI. Preliminary negotiations of Northwest Airlines
to secure from the Communists a traffic stop in
Peiping.
- VII. Continuing disagreement within the U.S. Government
on trade policy toward Communist China (original
NSC 41 substantially confirmed by relevant recom-
mendations of NSC 40/2, with issue now reopened
by Department of Defense through its tabling of
new paper in NSC 41 series and existence of our
counter draft).

We come now to what appears to me to be the central
problem. It has several important facets, including:

- a) the importance of denying Formosa to the Com-
munists for strategic reasons;
- b) the situation in the UN, and;
- c) the embarrassment of our continued entangle-
ment with the KMT Government, which is further
accentuated by the resumption of the Presi-
dency by the Generalissimo.

It is clear to me that in addition to our traditional
policy of attempting to protect American lives and property
abroad we are concurrently following two other basic policies
with respect to China which are in direct collision.

The injunction

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The injunction under which we operate, to deny Formosa to the Communists and to continue recognition to the Nationalists, obviously requires that we give the Nationalists diplomatic support in the UN and elsewhere; that we provide economic aid to Formosa; and that in other ways, such as permitting them to buy weapons and munitions, we support them in their war against the Mainland with the blockade and bombs. On the other hand, the Secretary has set our basic policy to be the avoidance of actions which will deflect on ourselves the righteous wrath of the Chinese people which if unobscured so surely will be concentrated on the Russians.

The dilemma, and hence the dichotomy of our operations under these mutually exclusive policies is apparent when we consider for example the proper position for us to take with respect to the recent bombing of the Shanghai Power Plant.

It seems to me in continued pursuit of the maneuver of disengagement which has been underway for nearly two years we must expect some apparent confusion in our actions for some little time to come. It is out of the question that we should pursue one or the other policy to its logical extremity since in the first case this would lead us to derecognizing the Nationalists, writing Formosa off and at the earliest possible moment recognizing Peking; whereas the logical extremity of the other would be to reverse ourselves and give all-out military support to the Nationalists regardless of the risk of direct involvement.

It is necessary it seems to me, however, that we should be clear in our minds in which direction we are moving in order to give a consistent emphasis in our daily actions to the policy which is fundamental. This, I take it, would be regaining our complete freedom of maneuver and disassociation in the Chinese mind with the Kuomintang as rapidly as events at home and abroad permit.

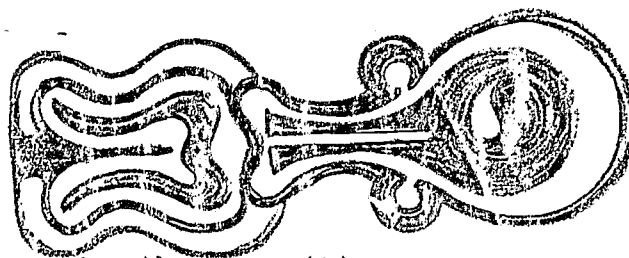
There are, however, several recent developments which enable or require us to re-examine the basic position. The first is the possibility of internal developments on Formosa along the lines discussed in a meeting in Mr. Webb's office yesterday. The second is the re-entry of the Generalissimo into the Presidency, which could be utilized as the occasion for a restatement of our attitude on recognition of the Communists. The third is the renewal of attacks on American shipping, this time at Tsingtao. Lastly, the activities of

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Trygve Lie

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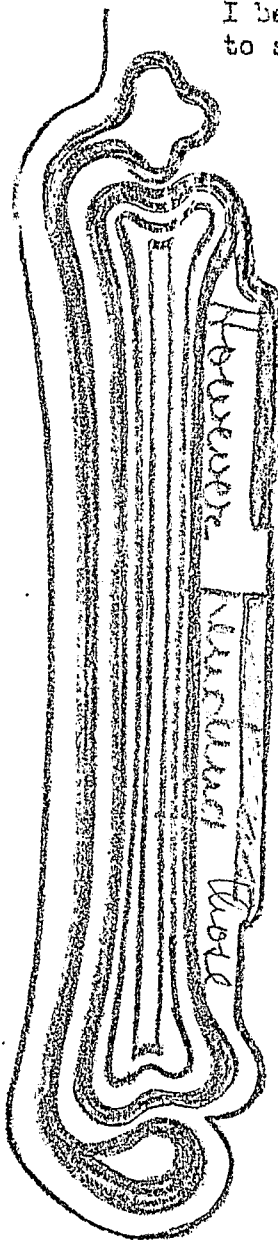


Trygve Lie in the direction of removing the recognition issue as the block to Russian participation in UN activities.

I do not believe we should take any action which would risk accomplishing or accelerating the loss of Formosa to the Communists. I do not believe we should take any step in the direction even of recognizing Peking. I do believe, however, that we should take certain conscious steps toward less intimate association with Chiang Kai-shek. Finally, I believe we should make at least some small contribution to solving the impasse in the UN.

Specifically, I recommend that:

- 1) We no longer make available to the National Government the facilities of this Government in the acquisition of arms apart from the completion of the \$125 million grant. I propose that we leave them in the position of any friendly government which can make commercial purchases in this country and secure export licenses for them. As a Government, however, we would not intervene on their behalf.
- 2) We take a stiffer line with the National Government and formally notify them that continued attacks on American shipping and American property in China are regarded by us so seriously as to warrant, if such attacks are continued, the immediate cessation of any further economic aid and export licenses.
- 3) We request the Joint Chiefs of Staff, through NSC, for an expression of their views as to whether or not continued bombing of urban centers will be a decisive factor in the defense of Formosa and constitutes the best use of CAF resources for that purpose. If the reply is to the effect that these attacks have no effect or only a marginal effect on the defense of Formosa, I think we should then protest such indiscriminate bombings on humanitarian grounds and because, by reason of the fact that the equipment is American, we are parties to it in the eyes of the Chinese undergoing bombing.
- 4) We inform the Latin American countries, to whom we earlier expressed our views on recognition, Egypt and any other friendly countries which have



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sought our views in the past, informing them that our position in the UN would follow our own decision on non-recognition, we had not intended to influence their individual decisions and to possibly go further and add that there is obviously no reason why other countries, if they so chose, should not follow one position in the UN seating issue and another in the matter of opening direct diplomatic relations with Peking.

5) Lastly, we take no steps to intervene in any way in the political evolution of the Government on Formosa.

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